



W. T. GRANT COMPANY

Annual Report / 1965

1,088 W. T. GRANT Friendly Family Stores in 46 States



The W. T. Grant Company A BRIEF DESCRIPTION

The Company started with one store at Lynn, Mass. in 1906. On January 31, 1966, it was operating 1,088 general merchandise stores in 46 states. In addition, 5 distribution centers were servicing the stores.

The stores are family type stores selling merchandise lines for women, for men, for children, and for the home.

Credit sales accounted for 23% of total sales for the year.

In 1965, total sales were \$839,715,000, a new all-time high for a year. Except for 1932, 1938, and 1949, the company has had a sales increase every year in its 59 year history.

The Company has earned a profit and has paid dividends in every year of its history.

The Company is maintaining a steady program of growth. In recent years, it has been directed entirely to leased shopping center stores. At the last year end, 751 of the 1,088 stores were in shopping centers.

The Company employed an average of

48,200 people during the year, with a peak of approximately 59,700 in December.

The Company's capitalization includes 150,000 shares of 3¾% preferred stock held by 680 stockholders, and 6,096,156 shares of common stock held by 15,285 stockholders.

The Company has long term debt that consists of \$35,000,000 of 4¾% Sinking Fund Debentures sold to the public in January 1962, and \$35,000,000 of 4% Convertible Subordinated Debentures sold to the public in June 1965.

The Company has a wholly-owned subsidiary, the W. T. Grant Credit Corporation, which, organized in January 1966, began to finance the Grant Company's growing credit business.

In addition to its domestic operations, the Company owns 51% of the common stock of Zeller's Ltd., a Canadian chain operating 106 stores similar to Grant stores, with 1965 sales of \$102,847,000.

Note—In addition to thousands of other items, those illustrated on cover of this report are available at most Grant stores.

W. T. Grant Company

FOUNDED IN 1906 AT LYNN, MASS.
EXECUTIVE AND BUYING OFFICES
1441 BROADWAY, NEW YORK, N. Y. 10018

DIRECTORS

WILLIAM T. GRANT
Chairman

EDWARD STALEY
Vice Chairman

JOHN G. BYLER

JOSEPH W. CHINN

HOWLAND S. DAVIS

HOWARD E. EADES

RAYMOND H. FOGLER

JOHN D. GRAY

THOMAS P. JERMAN

JAMES G. KENDRICK

M. F. KETZ

PETER KILBURN

JOSEPH A. LIVOLSI

LOUIS C. LUSTENBERGER

CLARENCE J. MYERS

DEWITT PETERKIN, JR.

DR. CHARLES F. PHILLIPS

R. W. ROSEVEAR

ASA T. SPAULDING

OFFICERS

W. T. GRANT
Chairman of the Board

EDWARD STALEY
Vice Chairman of the Board

LOUIS C. LUSTENBERGER
President

M. F. KETZ
Financial Vice President

R. W. ROSEVEAR
Merchandise Vice President

HOWARD E. EADES
Research and Personnel Vice President

JOSEPH A. LIVOLSI
Store Management Vice President

JAMES G. KENDRICK
Sales Vice President

RICHARD W. MAYER
Vice President and Treasurer

HERBERT T. WILKINSON
Pittsburgh Region Vice President

JOHN P. DANE, JR.
New England Region Vice President

PHILIP J. RODILOSSO
Central Region Vice President

JOSEPH T. REYNOLDS
Eastern Region Vice President

JAMES F. MCGRATH
Southern Region Vice President

EDWARD G. MILBURN
Western Region Vice President

S. E. ZIMMERMAN
Secretary and General Counsel

ROBERT J. KELLY
Assistant Secretary

ROSALIE A. MULFORD
Assistant Treasurer

ALLAN E. LOMEN
Assistant Comptroller

Transfer Agent: MORGAN GUARANTY TRUST COMPANY, NEW YORK, N. Y.

Registrar: BANKERS TRUST COMPANY, NEW YORK, N. Y.

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(W. T. Grant Credit Corporation)			

Highlights

	1965	1964
Sales	\$839,715,457	\$769,921,172
Net earnings	\$ 31,248,378	\$ 22,526,003
Per common share	\$5.03	\$3.68
Dividends paid per preferred share	\$3.75	\$3.75
Dividends paid per common share	\$1.60	\$1.20
Total dividends paid	\$ 10,211,090	\$ 7,672,137
Earnings retained in the business	\$ 21,037,288	\$ 14,853,866
Depreciation and amortization	\$ 6,868,489	\$ 6,997,938
Capital expenditures	\$ 7,846,000	\$ 5,262,000
Employee compensation and benefits	\$167,662,647	\$151,791,996
Cents per sales dollar	20.0¢	19.7¢
Merchandise inventories	\$151,365,361	\$140,715,930
Working capital	\$185,016,515	\$152,202,417
Net fixed assets	\$ 40,367,367	\$ 39,232,314
Long term debt	\$ 70,000,000	\$ 35,000,000
Common shares outstanding	6,096,156	5,964,481
Book value common stock—per share	\$27.99	\$24.58
Number of preferred stockholders	680	719
Number of common stockholders	15,285	15,771
Number of stores	1,088	1,092

THE STORE GROWTH PROGRAM / 1961 THROUGH 1965

Year	Number New Stores Opened		Number Stores Relocated or Enlarged	Capital Expenditures
	Shopping Centers	Downtown Locations		
1965	26	—	14	\$ 7,846,000
1964	29	—	14	5,262,000
1963	72	—	9	5,750,000
1962	112	—	9	7,478,000
1961	112	1	10	7,855,000
Totals	351	1	56	\$34,191,000

To The Stockholders:

For the fiscal year ended January 31, 1966, sales and net earnings reached record levels, again topping the all-time highs of the preceding year. Sales increased 9% and net earnings, 39% over last year.

SALES — The year's sales totalled \$839,715,457 which includes all-time high credit sales of \$189,811,029 that were 37% above a year ago and accounted for 23% of total sales.

EARNINGS — The year's net earnings totalled \$31,248,378 which, after dividends on the preferred stock, equalled \$5.03 per share on 6,096,156 shares of common stock outstanding at the year end.

In 1964, the previous record net earnings were \$22,526,003, or \$3.68 per share on 5,964,481 shares of common stock outstanding at the year end.

The current year's net earnings include \$1,186,709, or 19 cents per common share for the increase in equity in the Company's subsidiaries, Zeller's Limited, and the W. T. Grant Credit Corporation. In 1964, prior to the formation of the Credit Corporation, this item for Zeller's Limited amounted to \$866,003, or 15 cents per common share.

As in 1964, the excellent improvement in net earnings came from better performance in most phases and areas of the Company's operations, in addition to the fact that 1965 was another good year for the retail trade.

DIVIDENDS — In 1965, the regular dividends of \$3.75 per share were paid on the preferred stock.

On the common stock, regular dividends of \$1.60 per share were paid, an increase of 33 $\frac{1}{3}$ % over the \$1.20 per share paid in 1964.

For the past ten years, the aggregate total dividends paid were 53.7% of the net earnings.

The Board of Directors increased the regular quarterly dividend on the common stock, payable April 1, 1966, to 55 cents per share. On an annual basis, this is equivalent to \$2.20 per share, an increase of 37% over the \$1.60 paid in 1965 and an increase of 83% over the \$1.20 paid two years ago in 1964. This is the sixth time in the past twelve years that the common dividend has been increased.

If the stockholders, at their annual meeting on April 26, 1966, approve the two for one split in the Company's common stock, recommended by the Board of Directors, it is expected that the new annual dividend rate on the increased number of common shares will be \$1.10 per share.

The Company has had net earnings and paid dividends in every year of its 59 year history.

FINANCIAL COMMENTS — In June 1965, the Company successfully sold to the public \$35,000,000 of 4% Convertible Subordinated Debentures due June 1, 1990.

At the year end, working capital totalled \$185,016,515, an increase of \$32,814,098 over \$152,202,417 at the end of 1964 which, to be comparable with 1965, has been reduced and restated by \$10,747,000. This was done to conform with the recent Securities and Exchange Commission ruling that deferred taxes on gross profits on credit sales are to be included in current liabilities. Formerly they were included in other liabilities.

Merchandise inventories in stores, distribution centers, and in transit were \$151,365,361, or 7.6% above the \$140,715,930 of last year. They are in good relationship to sales. Store inventory turnover in 1965 again showed improvement and was the best since 1959. The increase in inventories is entirely accounted for by new and enlarged stores and distribution centers, including a new center opened in 1965.

The 1965 return on net worth was 16.6% compared with 13.8% in 1964.

In January 1966, W. T. Grant Credit Corporation was organized as a wholly-owned subsidiary with an initial investment of \$25,000,000 by the Grant Company. The Corporation was incorporated in Delaware and has its office in Wilmington. Its purpose is to finance growing credit sales and resulting customers' installment accounts of the Grant Company.

During January 1966, the Credit Corporation began buying the installment accounts from the parent company after the latter had repurchased all such accounts formerly sold to banks. It also started selling short-term notes directly to investors. The Corporation and the Grant Company had, at the year end, bank lines of credit totalling \$150,700,000. Its initial financial statements are included in this annual report.

At the year end, installment receivables were \$176,610,092, of which \$65,410,526 had been sold to the Credit Corporation and the balance of \$111,199,566 was owned by the Company. Last year, the receivables were \$110,025,228, of which \$56,935,089 had been sold to banks, and the balance of \$53,090,139 was owned by the Company.

GROWTH PROGRAM — In 1965, the Company opened 26 new shopping center stores, compared to 29 in 1964. The average size of the 1965 new stores was 43,500 square feet, or 23% larger than the average size of the new stores opened in 1964. In addition, the program included 14 enlarged stores, the same as last year. The Company also opened its fifth distribution center during the year.

During the year, 14 small stores were converted to Diskay Discount Marts, bringing this group to

34 stores. The Company has no plans to convert more stores to this group in 1966.

In 1965, the Company permanently closed 30 stores, mostly as leases expired. All but 7 of the stores were downtown locations, and were unprofitable or inadequate for the expanded lines of merchandise offered today.

There were 1,088 stores in operation at the year end, including 751 in shopping centers. A year ago, there were 1,092 stores, including 732 in shopping centers.

Capital expenditures in 1965 totalled \$7,846,000 which included \$1,227,000 expended for stores scheduled to open early in 1966. The 1964 capital expenditures were \$5,262,000.

For 1966, approximately 40 new shopping center stores will be opened, averaging about 40% larger than stores opened in 1965. In addition, approximately 23 stores will be materially enlarged. The 1966 capital expenditures are estimated at about \$14,000,000.

Beyond 1966, the Company intends to continue a consistent growth program of new and larger stores.

PERSONNEL AND ORGANIZATION — At the year end, the Company had approximately 46,600 employees compared to 44,000 last year.

In 1965, salaries, wages, social security taxes, retirement plan contributions, and other benefits totalled \$167,662,647 or 20% of sales. In 1964, these totalled \$151,791,996, or 19.7% of sales. Included in these totals are social security taxes of \$8,024,519 for 1965 and \$7,473,396 for 1964.

The Company's growth program continues to offer opportunities to its people and, during the year, has made possible the promotion of 122 assistant store managers to store management positions, and the promotion of 272 store managers to larger stores or other executive positions.

The Company had, at the year end, 1,191 men-in-training for future store management and executive positions.

At the January 25, 1966 Board of Directors meeting, DeWitt Peterkin, Jr., Executive Vice President of Morgan Guaranty Trust Company of New York, was elected a Director of the Company. Edward G. Milburn, formerly Vice President and Comptroller, was elected Western Region Vice President.

ZELLER'S LIMITED — Zeller's, the Canadian affiliate with 106 stores, which is 51% owned by the Grant Company, also had its best year in history, topping its 1964 sales and net earnings records.

Its 1965 sales were \$102,847,087, or 19.5% above the previous year.

In 1965, its net earnings were \$4,261,532, or \$1.33 per common share. The 1964 net earnings were \$3,063,862, or 95 cents per common share.

In 1965, Zeller's increased its quarterly common stock dividend to 12½ cents from the 10 cents per share of 1964. The quarterly common stock dividend payable in May 1966 has been increased to 15 cents per share, marking the third successive year of common stock dividend increases.

All the above amounts are in Canadian dollars.

The Company is grateful to its employees, suppliers, and customers for their support that made 1965 the second consecutive record year in its history. We extend a welcome to new stockholders, and appreciate the confidence of our continuing stockholders.

We expect that 1966 will be another favorable year during which we will continue our growth program. We believe that we are in excellent position to take advantage of opportunities for further improvement in 1966.

Chairman of the Board

Vice Chairman of the Board

President

March 22, 1966

statement of operations / W. T. GRANT COMPANY

Year ended January 31,

	1966	1965
SALES	\$839,715,457	\$769,921,172
Income from concessions	1,614,119	1,351,091
	<u>\$841,329,576</u>	<u>\$771,272,263</u>
Cost of merchandise sold, buying and occupancy costs	578,071,903	536,639,600
	<u>\$263,257,673</u>	<u>\$234,632,663</u>
Selling, general and administrative expenses	202,007,665	189,170,680
	<u>\$ 61,250,008</u>	<u>\$ 45,461,983</u>
ADD:		
Dividends received from Zeller's Limited	686,328	555,569
Interest earned	238,322	173,053
Other income	73,586	165,073
	<u>\$ 998,236</u>	<u>\$ 893,695</u>
	<u>\$ 62,248,244</u>	<u>\$ 46,355,678</u>
DEDUCT:		
Interest expense	4,845,956	4,164,072
Other deductions	440,619	331,606
	<u>\$ 5,286,575</u>	<u>\$ 4,495,678</u>
EARNINGS BEFORE FEDERAL INCOME TAXES	<u>\$ 56,961,669</u>	<u>\$ 41,860,000</u>
PROVISION FOR FEDERAL INCOME TAXES—Note C:		
Current	1,413,500	13,590,000
Deferred	25,486,500	6,610,000
	<u>\$ 26,900,000</u>	<u>\$ 20,200,000</u>
NET EARNINGS BEFORE SUBSIDIARIES	<u>\$ 30,061,669</u>	<u>\$ 21,660,000</u>
INCREASE IN EQUITY IN SUBSIDIARIES:		
Zeller's Limited	1,172,301	866,003
W. T. Grant Credit Corporation	14,408	—
NET EARNINGS FOR THE YEAR	<u>\$ 31,248,378</u>	<u>\$ 22,526,003</u>
DEDUCT:		
Cash Dividends:		
On 3¾% Cumulative Preferred Stock:		
Four quarterly dividends of 93¾¢ each per share	562,506	562,506
On Common Stock:		
Four quarterly dividends of 40¢ and 30¢, respectively, each per share	9,648,584	7,109,631
TOTAL DIVIDENDS	<u>\$ 10,211,090</u>	<u>\$ 7,672,137</u>
EARNINGS FOR THE YEAR RETAINED FOR USE IN THE BUSINESS	<u>\$ 21,037,288</u>	<u>\$ 14,853,866</u>
ADD:		
Earnings of prior years retained for use in the business	111,024,597	96,170,731
ACCUMULATED EARNINGS RETAINED FOR USE IN THE BUSINESS AT END OF THE YEAR	<u>\$132,061,885</u>	<u>\$111,024,597</u>

(See notes to financial statements.)

W. T. Grant Company

January 31,

ASSETS	1966	1965
CURRENT ASSETS		
Cash	\$ 22,558,641	\$ 30,970,373
Short term securities	—	7,996,014
Accounts receivable:		
Customers' installment accounts not sold	111,199,566	53,090,139
Equity in customers' installment accounts (\$65,410,526 and \$56,935,089, respectively) sold	3,270,526	5,693,510
	<u>\$114,470,092</u>	<u>\$ 58,783,649</u>
Less allowance for doubtful accounts	7,065,109	4,407,045
	<u>\$107,404,983</u>	<u>\$ 54,376,604</u>
Other accounts receivable, claims, etc.	3,538,376	2,903,394
Total accounts receivable, net	<u>\$110,943,359</u>	<u>\$ 57,279,998</u>
Merchandise inventories (including merchandise in transit)— at the lower of cost or market determined principally by the retail inventory method	<u>151,365,361</u>	<u>140,715,930</u>
TOTAL CURRENT ASSETS	<u>\$284,867,361</u>	<u>\$236,962,315</u>
OTHER ASSETS		
Investment in W. T. Grant Credit Corporation, at equity— Note A	25,014,408	—
Investment in Zeller's Limited, at equity—Note A	10,849,518	9,549,534
Cash surrender value of life insurance	2,555,111	2,509,656
Sundry receivables and deposits	500,501	549,215
TOTAL OTHER ASSETS	<u>\$ 38,919,538</u>	<u>\$ 12,608,405</u>
COMMON STOCK OF W. T. GRANT COMPANY		
At cost, held for Deferred Contingent Compensation Plan (53,900 and 50,200 shares, respectively)—Note B	1,222,333	1,036,640
STORE PROPERTIES, FIXTURES, AND IMPROVEMENTS— on the basis of cost		
Buildings	191,910	191,910
Furniture and fixtures	69,218,549	67,218,999
Improvements to leased properties	11,588,745	11,596,188
	<u>\$ 80,999,204</u>	<u>\$ 79,007,097</u>
Less allowance for depreciation and amortization	40,783,025	39,894,783
	<u>\$ 40,216,179</u>	<u>\$ 39,112,314</u>
Land	151,188	120,000
TOTAL STORE PROPERTIES, FIXTURES, AND IMPROVEMENTS	<u>\$ 40,367,367</u>	<u>\$ 39,232,314</u>
DEFERRED CHARGES		
Prepaid taxes, rents and insurance, supplies, etc	2,602,636	2,531,801
UNAMORTIZED DEBT EXPENSE	905,245	432,705
	<u>\$368,884,480</u>	<u>\$292,804,180</u>

statement of financial position

January 31,

LIABILITIES, RESERVES, AND CAPITAL	1966	1965
CURRENT LIABILITIES		
Accounts payable:		
Trade and sundry	\$ 35,361,515	\$ 37,850,620
Managers bonuses	5,535,603	5,175,267
Executives, buyers, and supervisors bonuses	4,466,941	3,119,785
Payroll taxes and taxes withheld from employees compensation	3,047,705	5,819,151
	<u>\$ 48,411,764</u>	<u>\$ 51,964,823</u>
Accrued expenses:		
Taxes other than federal income taxes	3,246,632	2,542,177
Rent, salaries and wages, etc.	11,618,559	7,333,983
	<u>\$ 14,865,191</u>	<u>\$ 9,876,160</u>
Federal income taxes—Note C	36,573,891	22,918,915
TOTAL CURRENT LIABILITIES	<u>\$ 99,850,846</u>	<u>\$ 84,759,898</u>
LONG TERM DEBT—Note D	70,000,000	35,000,000
DEFERRED FEDERAL INCOME TAXES—Note C	6,269,102	5,126,000
RESERVES		
For uninsured risks	1,500,000	1,500,000
For repainting stores	2,046,460	1,886,830
For deferred contingent compensation	1,238,377	1,020,400
TOTAL RESERVES	<u>\$ 4,784,837</u>	<u>\$ 4,407,230</u>
CAPITAL—Notes A, B, D, and E:		
Capital Stock		
Cumulative Preferred—\$100 par value:		
Authorized 250,000 shares		
Issued 150,000 shares of 3 $\frac{3}{4}$ % series	15,000,000	15,000,000
Common—\$2.50 par value:		
Authorized 8,500,000 shares		
Issued 6,150,056 and 6,014,681 shares, respectively	15,375,140	15,036,703
Capital paid-in in excess of par value of shares issued	24,710,165	21,751,283
Amounts paid by officers and employees under purchase contracts for 387,100 and 466,105 shares, respectively, of unissued Common Stock	832,505	698,469
	<u>\$ 40,917,810</u>	<u>\$ 37,486,455</u>
Earnings retained for use in the business	132,061,885	111,024,597
TOTAL CAPITAL	<u>\$187,979,695</u>	<u>\$163,511,052</u>
LONG TERM LEASES AND CONTINGENT LIABILITY—Note F	<u>\$368,884,480</u>	<u>\$292,804,180</u>

(See notes to financial statements.)

W. T. Grant Credit Corporation

STATEMENT OF FINANCIAL POSITION AT JANUARY 31, 1966

ASSETS

CURRENT ASSETS

Customers' installment accounts purchased from W. T. Grant Company	\$65,410,526
Less portion of purchase price withheld pending collection	3,270,526
	<u>\$62,140,000</u>
Cash	78,927
Accounts receivable from W. T. Grant Company	90,744
Prepaid interest and other expenses	50,294
TOTAL CURRENT ASSETS	<u>\$62,359,965</u>

OTHER ASSETS

Furniture and equipment—at cost less allowance for depreciation	4,813
Unamortized organization expense	8,280
	<u>\$62,373,058</u>

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Bank loans	\$20,618,979
Notes payable	16,695,000
Accounts payable	3,649
Accrued interest and other expenses	27,672
Federal income taxes	13,350
TOTAL CURRENT LIABILITIES	<u>\$37,358,650</u>

CAPITAL

Common stock—\$10,000 par value:	
Authorized and issued 2,500 shares	25,000,000
Earnings retained in the business	14,408
TOTAL CAPITAL	<u>\$25,014,408</u>
	<u>\$62,373,058</u>

STATEMENT OF OPERATIONS PERIOD FROM JANUARY 3 THROUGH JANUARY 31, 1966

EARNINGS ON INVESTMENT IN CUSTOMERS' INSTALLMENT ACCOUNTS	\$ 90,744
EXPENSES:	
Interest	59,288
Other	3,698
EARNINGS BEFORE FEDERAL INCOME TAXES	<u>\$ 27,758</u>
FEDERAL INCOME TAXES	13,350
NET EARNINGS (retained in the business)	<u>\$ 14,408</u>

Note A—On January 11, 1966, the Company acquired all of the common stock of W. T. Grant Credit Corporation, a newly formed subsidiary, at a cost of \$25,000,000.

The Company carries its investment in Zeller's Limited (an approximately 51% owned Canadian subsidiary, cost \$7,735,291) and W. T. Grant Credit Corporation at equity and has included in net earnings its share of the earnings of those subsidiaries.

Note B—The amount shown for the reserve for deferred contingent compensation at January 31, 1966 represents (a) to the extent that allotments are contingently distributable in Common Stock of the Company, an amount equivalent to the cost to the Company of 53,900 shares of its Common Stock held for this purpose plus provision for the purchase of 32 additional shares; and (b) the total remaining in participants' contingent cash allotments. For the year ended January 31, 1966, the amount charged to earnings for this Plan was \$264,000.

Note C—Gross profits on sales on the installment basis are reflected in the financial statements when the sales are made, whereas, for federal income tax purposes such gross profits are reported as income as collections are received. At January 31, 1966 there were \$35,038,000 of deferred income taxes applicable to such gross profits. Deferred income taxes in the amount of \$10,747,000 at January 31, 1965 which applied to similar gross profits and which were classified as a non-current liability in the balance sheet previously issued as of that date, have been reclassified as a current liability herein to conform to the classification adopted for such taxes as of January 31, 1966.

The Company has continued to apply "guideline" depreciation rates and to use accelerated methods in determining depreciation deductions for federal income tax purposes while recording depreciation on the straight-line method utilizing the same rates for financial statements as in prior years. At January 31, 1966, depreciation of approximately \$13,050,000 has been deducted for tax purposes in excess of the deduction in the financial statements, and the related federal income taxes (\$6,269,000) have been classified as non-current deferred taxes in the balance sheet.

Investment credit totalling approximately \$541,000 has been deducted from the provision for federal income taxes. Federal income tax returns of the Company have been examined by the Internal Revenue Service through January 31, 1963.

The substantial increase in the provision for deferred federal income taxes for the year ended January 31, 1966 is principally attributable to the Company's ability to defer federal income taxes on gross profits on installment accounts sold to its subsidiary (W. T. Grant Credit Corporation formed in January 1966) as well as on such accounts owned by the Company. In prior years, the Company was unable to defer such taxes on the accounts sold to banks and could defer such taxes only on owned accounts.

Note D—Long-term debt:

4% Sinking Fund Debentures dated January 1, 1962 and due January 1, 1987 (annual sinking fund payments of \$1,500,000 beginning January 1, 1969)	\$35,000,000
4% Convertible Subordinated Debentures, dated June 1, 1965 and due June 1, 1990 (annual sinking fund payments of \$1,500,000 beginning June 1, 1975)	35,000,000
	<u>\$70,000,000</u>

As of January 31, 1966, 625,000 shares of Common Stock of the Company were reserved for conversion of the 4% Convertible Subordinated Debentures at the rate of one share of Common Stock for each \$56 principal amount of debentures. Debentures so converted may be applied against sinking fund requirements.

The indentures provide, among other things, for certain limitations with respect to the declaration of cash dividends, acquisition or disposition of capital stock, and the incurrence of long-term indebtedness. At January 31, 1966, approximately \$44,000,000 of earnings retained for use in the business was free for payment of cash dividends.

Note E—The 3 3/4 % Cumulative Preferred Stock is redeemable at the Company's option in whole or in part at \$100 per share plus accrued dividends to date of redemption.

At January 31, 1966, 419,640 shares of the Company's unissued Common Stock were reserved under the Employees' Stock Purchase Plans. Contracts for the sales of such shares, on a deferred payment basis, are made at approximate market prices at dates of contracts. Shares are issued after completion of payments. In addition to the shares reserved under these Plans, the only other shares of Capital Stock reserved for options, warrants, conversions, and other rights are the 625,000 shares reserved for conversion of debentures and the shares of issued Common Stock held as explained in Note. B.

Note F—At January 31, 1966, the Company was lessee of real property under 1,107 leases expiring subsequent to January 31, 1969, at aggregate minimum annual rentals of approximately \$31,174,000 (exclusive of taxes and other expenses payable under terms of certain of the leases). This amount includes approximately \$24,191,000 for minimum annual rentals under 863 leases which were on a percentage of sales basis with specified minimum annual rentals, but does not include any amount for 10 leases which were on a percentage of sales basis without any specified minimum annual rentals.

The Company amended its Retirement Plan to provide increased benefits to eligible employees effective January 1, 1966. Based on actuarial estimates, the unfunded liability for past service benefits was approximately \$5,200,000 at January 31, 1966.

ACCOUNTANTS' REPORT

TO THE BOARDS OF DIRECTORS
W. T. GRANT COMPANY, NEW YORK, N. Y.
AND W. T. GRANT CREDIT CORPORATION, WILMINGTON, DEL.

We have examined the accompanying financial statements of the W. T. Grant Company at and for the year ended January 31, 1966 and of the W. T. Grant Credit Corporation at January 31, 1966 and for the period from January 3, 1966 (date of incorporation) to January 31, 1966. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and of operations present fairly the financial position of the W. T. Grant Company and of the W. T. Grant Credit Corporation at January 31, 1966 and the results of their operations for the respective periods then ended, in conformity with generally accepted accounting principles, and with respect to the W. T. Grant Company, applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying combined statement of source and disposition of funds for the W. T. Grant Company and the W. T. Grant Credit Corporation for the year ended January 31, 1966 presents fairly the information shown therein.

March 18, 1966
New York, N. Y.

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comparative statement of operations

	(years which end January 31 of subsequent years)				
	1965	1964	1963	1962	1961
SALES	\$839,715,457	\$769,921,172	\$698,673,072	\$686,262,689	\$574,501,798
Income from concessions	1,614,119	1,351,091	1,114,198	850,775	600,502
	<u>\$841,329,576</u>	<u>\$771,272,263</u>	<u>\$699,787,270</u>	<u>\$687,113,464</u>	<u>\$575,102,300</u>
LESS:					
Cost of merchandise sold, buying and occupancy costs	578,071,903	536,639,600	493,772,308	484,931,907	403,487,117
Selling, general and administrative expenses	202,007,665	189,170,680	179,129,728	180,566,895	152,720,131
	<u>\$ 61,250,008</u>	<u>\$ 45,461,983</u>	<u>\$ 26,885,234</u>	<u>\$ 21,614,662</u>	<u>\$ 18,895,052</u>
ADD:					
Dividends received from Zeller's Limited	686,328	555,569	498,335	501,179	529,739
Interest earned	238,322	173,053	148,058	114,794	67,915
Other income	73,586	165,073	149,091	24,306	78,466
	<u>\$ 62,248,244</u>	<u>\$ 46,355,678</u>	<u>\$ 27,680,718</u>	<u>\$ 22,254,941</u>	<u>\$ 19,571,172</u>
DEDUCT:					
Interest expense	4,845,956	4,164,072	4,724,523	3,995,696	2,184,964
Other deductions	440,619	331,606	302,236	295,123	266,895
EARNINGS BEFORE FEDERAL INCOME TAXES	\$ 56,961,669	\$ 41,860,000	\$ 22,653,959	\$ 17,964,122	\$ 17,119,313
PROVISION FOR FEDERAL INCOME TAXES	26,900,000	20,200,000	11,660,000	8,960,000	8,760,000
NET EARNINGS BEFORE SUBSIDIARIES	\$ 30,061,669	\$ 21,660,000	\$ 10,993,959	\$ 9,004,122	\$ 8,359,313
INCREASE (DECREASE) IN EQUITY IN SUBSIDIARIES:					
Zeller's Limited	1,172,301	866,003	287,889	81,113	(102,079)
W. T. Grant Credit Corporation	14,408	—	—	—	—
NET EARNINGS FOR THE YEAR	<u>\$ 31,248,378</u>	<u>\$ 22,526,003</u>	<u>\$ 11,281,848</u>	<u>\$ 9,085,235</u>	<u>\$ 8,257,234</u>
DEDUCT:					
Preferred dividends	562,506	562,506	562,506	562,507	562,507
Common dividends	9,648,584	7,109,631	7,048,160	6,997,322	6,940,102
ADD:					
Earnings of prior years retained in the business	111,024,597	96,170,731	92,499,549	90,974,143	90,219,518
Accumulated earnings retained, at end of year	<u>\$132,061,885</u>	<u>\$111,024,597</u>	<u>\$ 96,170,731</u>	<u>\$ 92,499,549</u>	<u>\$ 90,974,143</u>

comparative statement of financial position

(at January 31 of subsequent years)

ASSETS:

	1965	1964	1963	1962	1961
Cash	\$ 22,558,641	\$ 30,970,373	\$ 31,424,424	\$ 26,493,815	\$ 49,687,679
Short term securities	—	7,996,014	4,998,542	—	—
Accounts receivable—customers' installment accounts (net)	107,404,993	54,376,604	27,405,209	4,125,597	17,601,057
Accounts receivable—other	3,538,376	2,903,394	2,666,556	2,914,548	2,567,880
Merchandise inventories	151,365,361	140,715,930	130,551,578	141,046,594	112,885,170
TOTAL CURRENT ASSETS	<u>284,867,361</u>	<u>236,962,315</u>	<u>197,046,309</u>	<u>174,580,554</u>	<u>182,741,786</u>
Investment in W. T. Grant Credit Corporation, at equity	25,014,408	—	—	—	—
Investment in Zeller's Limited, at equity	10,849,518	9,549,534	8,525,522	8,170,205	8,046,904
Cash surrender value of life insurance	2,555,111	2,509,656	2,464,139	2,415,184	2,363,920
Sundry receivables and deposits	500,501	549,215	796,142	738,001	857,337
Common stock of W. T. Grant Company held for deferred contingent compensation plan, at cost	1,222,333	1,036,640	850,857	768,424	632,995
Land and buildings (net)	269,693	246,219	472,433	480,147	487,861
Furniture and fixtures (net)	36,237,088	34,967,593	36,592,084	37,744,657	36,668,189
Improvements to leased properties (net)	3,860,586	4,018,502	4,211,382	4,383,112	4,979,314
Deferred charges	2,602,636	2,531,801	2,376,827	3,889,386	4,672,187
Unamortized debt expense	905,245	432,705	462,374	492,043	521,346
TOTAL ASSETS	<u>\$368,884,480</u>	<u>\$292,804,180</u>	<u>\$253,798,069</u>	<u>\$233,661,713</u>	<u>\$241,971,839</u>

LIABILITIES, RESERVES, AND CAPITAL:

Accounts payable and accrued expenses	\$ 63,276,955	\$ 61,840,983	\$ 53,210,387	\$ 42,585,806	\$ 54,461,145
Federal income taxes	36,573,891	22,918,915	9,957,271	7,063,676	8,388,685
TOTAL CURRENT LIABILITIES	<u>99,850,846</u>	<u>84,759,898</u>	<u>63,167,658</u>	<u>49,649,482</u>	<u>62,849,830</u>
Long term debt	70,000,000	35,000,000	35,000,000	35,000,000	35,000,000
Deferred federal income taxes	6,269,102	5,126,000	4,641,000	3,025,000	804,000
Reserve for uninsured risks	1,500,000	1,500,000	1,400,000	1,400,000	1,400,000
Reserve for repainting stores	2,046,460	1,886,830	1,774,644	1,656,165	1,505,579
Reserve for deferred contingent compensation	1,238,377	1,020,400	880,967	762,010	697,562
CAPITAL:					
Preferred stock	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Common stock	40,917,810	37,486,455	35,763,069	34,669,507	33,740,725
Earnings retained for use in the business	132,061,885	111,024,597	96,170,731	92,499,549	90,974,143
TOTAL LIABILITIES, RESERVES, AND CAPITAL	<u>\$368,884,480</u>	<u>\$292,804,180</u>	<u>\$253,798,069</u>	<u>\$233,661,713</u>	<u>\$241,971,839</u>

combined statement of source and disposition of income

W. T. GRANT COMPANY AND W. T. GRANT CREDIT CORPORATION

(amounts in 000's)

(years which end January 31 of subsequent years)	1965	1964	1963	1962	1961
WHERE FUNDS CAME FROM					
SALES	\$839,715	\$769,921	\$698,673	\$686,262	\$574,501
LESS:					
Merchandise costs, supplies, outside services, etc.	567,393	530,790	491,938	496,149	407,539
Wages and salaries, including miscellaneous benefits	159,287	143,901	132,756	123,462	107,224
Retirement plan contributions	352	418	619	875	648
Social security taxes on payrolls	8,025	7,473	7,430	6,868	5,249
Rents to landlords less rentals on subleases	33,246	31,542	29,703	27,825	23,854
Federal, state and local taxes, excluding social security taxes	34,468	27,139	18,250	15,297	15,087
Depreciation and amortization	6,868	6,998	6,983	6,782	6,541
NET INCOME FROM OPERATIONS, excluding increase or decrease in equity in Zeller's Limited	\$ 30,076	\$ 21,660	\$ 10,994	\$ 9,004	\$ 8,359
Add charges against income which involve no cash outlay:					
Depreciation and amortization	6,868	6,998	6,983	6,782	6,541
Net increase in reserves	378	352	237	215	317
Deferred federal income tax	1,143	485	1,616	2,221	432
From sale of common stock to employees	3,431	1,723	1,094	929	1,214
From sale of debentures	35,000	—	—	—	35,000
From sale of land and buildings	—	219	—	18	146
From decrease in sundry accounts—net	—	76	1,435	880	—
TOTAL FUNDS PROVIDED	<u>\$ 76,896</u>	<u>\$ 31,513</u>	<u>\$ 22,359</u>	<u>\$ 20,049</u>	<u>\$ 52,009</u>
HOW FUNDS WERE USED					
For dividends to stockholders	\$ 10,211	\$ 7,672	\$ 7,611	\$ 7,560	\$ 7,502
For investment in land and buildings	31	—	—	—	—
For investment in furniture and fixtures	7,561	4,807	5,306	7,272	7,577
For investment in improvements to leased properties	416	366	346	—	71
For investment in Zeller's Limited	128	158	67	42	—
For purchase of common stock for deferred compensation plan	186	186	82	136	6
For increase in sundry accounts—net	548	—	—	—	877
Funds added to working capital	57,815	18,324	8,947	5,039	35,976
TOTAL FUNDS USED	<u>\$ 76,896</u>	<u>\$ 31,513</u>	<u>\$ 22,359</u>	<u>\$ 20,049</u>	<u>\$ 52,009</u>

historical record/ 1907 THROUGH 1965

(Amounts in 000's)

Year	No. of Stores	PRE-TAX EARNINGS		NET EARNINGS		DIVIDENDS		WORKING CAPITAL		FIXED ASSETS		NET WORTH	
		Total	Per Sales Dollar	Total	Per Sales Dollar	Total	% of Net	Total	% Sales	Total	% Sales	Total	% Earned
1907	1	\$ 10	9.8¢	\$ 10	9.8¢	\$ 8	81.7	\$ 16	16.5	\$ 3	3.0	\$ 19	52.6
1912	12	26	1.9	26	1.9	32	121.9	179	13.2	132	9.7	315	8.3
1917	30	154	3.4	110	2.4	44	39.5	430	9.5	301	6.7	759	14.5
1922	50	708	4.6	611	4.0	173	28.2	1,803	11.7	1,403	9.1	3,261	18.7
1927	157	2,754	6.3	2,386	5.5	569	23.8	5,200	11.9	6,167	14.1	11,416	20.9
1932	446	1,849	2.5	1,612	2.2	1,195	74.2	9,704	13.3	16,101	22.0	25,155	6.4
1937	480	4,253	4.3	3,402	3.4	2,353	69.2	18,580	18.8	14,876	15.0	34,359	9.9
1942	493	9,684	6.3	3,762	2.4	2,014	53.5	22,449	14.6	19,052	12.4	41,046	9.2
1947	483	13,862	6.1	8,679	3.8	4,131	47.6	42,359	18.5	23,128	10.1	63,462	13.7
1952	493	18,895	6.7	7,570	2.7	4,165	55.0	43,077	15.2	35,203	12.4	84,744	8.9
1953	502	18,920	6.3	8,045	2.7	4,188	52.1	41,956	14.0	38,189	12.7	89,056	9.0
1954	520	18,585	5.9	8,755	2.8	4,211	48.1	46,553	14.7	38,245	12.1	94,118	9.3
1955	574	20,395	5.8	9,710	2.8	4,971	51.2	57,125	16.2	33,760	9.6	99,480	9.8
1956	632	18,493	4.9	8,338	2.3	5,496	61.5	57,808	15.2	36,795	9.7	103,565	8.6
1957	691	18,259	4.5	9,718	2.4	5,527	56.9	62,273	15.3	37,641	9.3	108,305	9.0
1958	739	20,165	4.7	9,850	2.3	5,553	56.4	64,037	14.8	37,710	8.7	113,193	8.7
1959	801	25,433	5.3	12,258	2.6	6,624	54.0	82,907	17.3	39,239	8.2	133,681	9.2
1960	864	19,016	3.7	9,371	1.8	7,429	79.3	83,916	16.4	41,174	8.0	137,746	6.8
1961	952	17,119	3.0	8,257	1.4	7,502	90.9	119,892	20.9	42,135	7.3	139,715	5.9
1962	1,032	17,964	2.6	9,085	1.3	7,560	83.2	124,931	18.2	42,608	6.2	142,169	6.4
1963	1,081	22,654	3.2	11,282	1.6	7,611	67.5	133,879	19.2	41,276	5.9	146,934	7.7
1964	1,092	41,860	5.4	22,526	2.9	7,672	34.1	152,202	19.8	39,232	5.1	163,511	13.8
1965	1,088	56,962	6.8	31,248	3.7	10,211	32.7	185,017	22.0	40,367	4.8	187,980	16.6

W.T. GRANT CO.

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